

**REPORT OF THE AUDIT OF THE
BREATHITT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
BREATHITT COUNTY FISCAL COURT

June 30, 2009

The Auditor of Public Accounts has completed the audit of the Breathitt County Fiscal Court for fiscal year ended June 30, 2009.

We have issued unqualified opinions, on the governmental activities, each major fund, and aggregate remaining fund information of Breathitt County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$11,178,573 as of June 30, 2009. The fiscal court had unrestricted net assets of \$1,936,092 in its governmental activities as of June 30, 2009, with total net assets of \$11,178,573. The fiscal court had total debt principal as of June 30, 2009 of \$7,299,727 with \$762,827 due within the next year.

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Harvey Jason Richardson, Breathitt County Judge/Executive

Members of the Breathitt County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breathitt County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Breathitt County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Breathitt County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Breathitt County, Kentucky, as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of budgetary comparison information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Harvey Jason Richardson, Breathitt County Judge/Executive
Members of the Breathitt County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Breathitt County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2010 on our consideration of Breathitt County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

March 22, 2010

BREATHITT COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Harvey Jason Richardson	County Judge/Executive
Tim Spencer	Commissioner
Arch Johnson, Jr.	Commissioner
Jeff Noble	Commissioner

Other Elected Officials:

Brendon D. Miller	County Attorney
James E. Turner	Jailer
Tony Watts	County Clerk
Patsy Williams	Circuit Court Clerk
Ray Clemons	Sheriff
Ervine Allen	Property Valuation Administrator
George Griffith	Coroner

Appointed Personnel:

William K. Back	County Treasurer
Orlena Faye Miller	Finance Officer

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BREATHITT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

BREATHITT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Primary Governmental Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,937,477
Assets Held For Resale	315,000
Note Receivable	<u>7,228</u>
Total Current Assets	<u>2,259,705</u>
Noncurrent Assets:	
Note Receivable	74,976
Capital Assets-Net of Accumulated Depreciation	
Land	1,727,786
Buildings	12,682,181
Vehicles and Equipment	787,573
Infrastructure Assets-Net of Depreciation	<u>946,079</u>
Total Noncurrent Assets	<u>16,218,595</u>
Total Assets	<u>18,478,300</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	365,000
Financing Obligations Payable	<u>397,827</u>
Total Current Liabilities	<u>762,827</u>
Noncurrent Liabilities:	
Bonds Payable	6,350,000
Financing Obligations Payable	<u>186,900</u>
Total Noncurrent Liabilities	<u>6,536,900</u>
Total Liabilities	<u>7,299,727</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	9,241,096
Restricted For:	
Debt Service	1,385
Unrestricted:	<u>1,936,092</u>
Total Net Assets	<u><u>\$ 11,178,573</u></u>

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BREATHITT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

BREATHITT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,423,929	\$ 698,272	\$	\$ 374,886
Protection to Persons and Property	1,120,764	4,870	128,260	18,076
General Health and Sanitation	692,579	104,950	472,094	277,405
Social Services	66,782			
Recreation and Culture	14,054			
Transportation Facilities and Services	1,598			
Roads	1,127,781		1,035,929	1,196,752
Airports	13,615			
Capital Projects	7,102			
Interest on Long-Term Debt	280,848			
Total Governmental Activities	5,749,052	808,092	1,636,283	1,867,119
Total Primary Government	\$ 5,749,052	\$ 808,092	\$ 1,636,283	\$ 1,867,119
General Revenues:				
Taxes:				
Real Property Taxes				
Personal Property Taxes				
Motor Vehicle Taxes				
Other Taxes				
Excess Fees				
Miscellaneous Revenues				
Accrued Interest Received				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning (Restated)				
Net Assets - Ending				

The accompanying notes are an integral part of the financial statements.

BREATHITT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental
Activities

\$	(1,350,771)
	(969,558)
	161,870
	(66,782)
	(14,054)
	(1,598)
	1,104,900
	(13,615)
	(7,102)
	(280,848)

(1,437,558)

(1,437,558)

	243,706
	51,080
	65,076
	1,339,100
	185,890
	168,531
	5,250

2,058,633

621,075

10,557,498

\$ 11,178,573

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BREATHITT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

BREATHITT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Local Government Economic Assistance Fund</u>	
ASSETS					
Cash and Cash Equivalents	\$ 615,192	\$ 306,588	\$ 13,798	\$ 604,980	.
Total Assets	<u>615,192</u>	<u>306,588</u>	<u>13,798</u>	<u>604,980</u>	:
FUND BALANCES					
Reserved for:					
Encumbrances	13,356				
Reserved for:					
Debt Service Fund					
Unreserved:					
General Fund	601,836				
Special Revenue Funds		306,588	13,798	604,980	.
Total Fund Balance	<u>\$ 615,192</u>	<u>\$ 306,588</u>	<u>\$ 13,798</u>	<u>\$ 604,980</u>	:

The accompanying notes are an integral part of the financial statements.

BREATHITT COUNTY**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS****June 30, 2009****(Continued)**

Solid Waste Fund	E-911 Fund	Breathitt County Kentucky Justice Center Corporation Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 180,535</u>	<u>\$ 174,467</u>	<u>\$</u>	<u>\$ 41,917</u>	<u>\$ 1,937,477</u>
<u>180,535</u>	<u>174,467</u>	<u></u>	<u>41,917</u>	<u>1,937,477</u>
				13,356
			1,385	1,385
				601,836
<u>180,535</u>	<u>174,467</u>	<u></u>	<u>40,532</u>	<u>1,320,900</u>
<u>\$ 180,535</u>	<u>\$ 174,467</u>	<u>\$ 0</u>	<u>\$ 41,917</u>	<u>\$ 1,937,477</u>

**Reconciliation of the Balance Sheet-Governmental Funds
To The Statement of Net Assets**

Total Fund Balances	\$ 1,937,477
Amounts reported For Government Activities In The Statement Of Net Assets Are Difference Because:	
Capital Assets Used In Government Activities Are Not Financial Resources And Therefore Are Not Reported In Governmental Funds.	18,634,388
Accumulated Depreciation	(2,490,769)
Asset Held For Resale	315,000
Receivable Is Not Due And Collectible In The Current Period And, Therefore, Is Not Reported In The Governmental Funds.	82,204
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Financing Obligations	(584,727)
Bonded Debt	<u>(6,715,000)</u>
Net Assets Of Governmental Activities	<u>\$ 11,178,573</u>

The accompanying notes are an integral part of the financial statements.

BREATHITT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

BREATHITT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,594,355	\$	\$	\$
Excess Fees	185,890			
Licenses and Permits	17,461			
Intergovernmental	290,808	1,454,380	113,614	969,211
Charges for Services			3,455	
Miscellaneous	236,900	14,604	4,591	12,011
Interest	1,354	1,487	139	1,333
Total Revenue	<u>2,326,768</u>	<u>1,470,471</u>	<u>121,799</u>	<u>982,555</u>
EXPENDITURES				
General Government	1,325,665			167,184
Protection to Persons and Property	75,126		734,575	29,859
General Health and Sanitation				160,950
Social Services	66,114			668
Recreation and Culture	672			13,382
Transportation Facilities and Services		1,598		
Roads		1,332,930		7,905
Airports				13,615
Debt Service	25,638	48,303	12,111	16,991
Capital Projects		7,102		
Administration	412,415	224,242	46,924	39,276
Total Expenditures	<u>1,905,630</u>	<u>1,614,175</u>	<u>793,610</u>	<u>449,830</u>
Excess (Deficiency) of Revenue Over				
Financing Sources (Uses)	<u>421,138</u>	<u>(143,704)</u>	<u>(671,811)</u>	<u>532,725</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds		315,000		
Transfer From Other Funds	75,000		645,000	
Transfers to Other Funds	(317,500)	(10,169)	(24,170)	(330,000)
Total Other Financing Sources (Uses)	<u>(242,500)</u>	<u>304,831</u>	<u>620,830</u>	<u>(330,000)</u>
Net Change in Fund Balances	178,638	161,127	(50,981)	202,725
Fund Balances-Beginning (Restated)	<u>436,554</u>	<u>145,461</u>	<u>64,779</u>	<u>402,255</u>
Fund Balances-Ending	<u><u>\$ 615,192</u></u>	<u><u>\$ 306,588</u></u>	<u><u>\$ 13,798</u></u>	<u><u>\$ 604,980</u></u>

The accompanying notes are an integral part of the financial statements.

BREATHITT COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Solid Waste Fund	E-911 Fund	Breathitt County Kentucky Justice Center Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 104,541	\$	\$	\$ 1,698,896
				185,890
				17,461
95,984		574,231	287,405	3,785,633
104,950			300,486	408,891
				268,106
521	406	1	9	5,250
<u>201,455</u>	<u>104,947</u>	<u>574,232</u>	<u>587,900</u>	<u>6,370,127</u>
				1,492,849
	80,866		164,661	1,085,087
167,178			340,601	668,729
				66,782
				14,054
				1,598
				1,340,835
				13,615
		571,755	33,339	708,137
				7,102
21,810	11,021	2,500	19,510	777,698
<u>188,988</u>	<u>91,887</u>	<u>574,255</u>	<u>558,111</u>	<u>6,176,486</u>
<u>12,467</u>	<u>13,060</u>	<u>(23)</u>	<u>29,789</u>	<u>193,641</u>
				315,000
			36,839	756,839
			<u>(75,000)</u>	<u>(756,839)</u>
			<u>(38,161)</u>	<u>315,000</u>
12,467	13,060	(23)	(8,372)	508,641
168,068	161,407	23	50,289	1,428,836
<u>\$ 180,535</u>	<u>\$ 174,467</u>	<u>\$ 0</u>	<u>\$ 41,917</u>	<u>\$ 1,937,477</u>

The accompanying notes are an integral part of the financial statements.

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**BREATHITT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

BREATHITT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change In Fund Balances - Total Governmental Funds	\$ 508,641
Amount Reported For Governmental Activities In The Statement Of Activities Are Different Because Governmental Funds Report Capital Outlay As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.	
Capital Outlay	33,023
Assets Held For Resale	315,000
Depreciation Expense	(347,878)
The Issuance Of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To The Governmental Funds, While Repayment Of Principal On Long-term Debt Consumes The Financial Resources Of Governmental Funds. These Transactions, However, Have No Effect On Net Assets.	
Financing Obligation Proceeds	(315,000)
Bond Principal Payments	350,000
Financing Obligation Principal Payments	<u>77,289</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 621,075</u></u>

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Breathitt County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provides their services exclusively to the primary government, and the fiscal court is able to impose its will on these organizations. This organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Breathitt County Public Properties Corporation

The fiscal court appoints the voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Breathitt County Public Properties Corporation. Their balances and transactions are reported in the General Obligation Refunding Bond Series 2003 Fund.

Breathitt County Kentucky Justice Center Corporation (JCC)

The Fiscal Court has the ability to approve or modify the JCC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the JCC. In addition, the Fiscal Court is financially accountable for the JCC, legally entitled to the JCC's resources, as well as legally obligated for the JCC's debt. Financial information for the Breathitt County Kentucky Justice Center Corporation is blended within Breathitt County's financial statements.

C. Breathitt County Elected Officials Not Part Of Breathitt County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Breathitt County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Breathitt County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - This fund is to account for the jail expenses of the county. The primary sources of revenue are reimbursements from the state government and transfers from other funds. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the general fund.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Local Government Economic Assistance Fund - These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Solid Waste Fund - The primary purpose of this fund is to account for revenues and expenditures related to general health and sanitation.

E-911 Fund - The primary purpose of this fund is to account for 911 tax revenues and emergency services expenditures.

Breathitt County Kentucky Justice Center Corporation Fund - The Breathitt County Kentucky Justice Center Corporation Fund accounts for the activities of the Breathitt County Kentucky Justice Center Corporation, a blended component unit of the county. The Breathitt County Kentucky Justice Center Corporation issued debt to build a facilities and additions to the Justice Center. The Breathitt County Kentucky Justice Center Corporation entered into a contract, lease and option with the County and Administrative Office of the Courts (AOC), Commonwealth of Kentucky. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Community Development Block Grant Fund, General Obligation Refunding Bond Series 2003 Fund, Disaster and Emergency Service Fund, Local Government Economic Development Fund, and Economic Assistance Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Community Development Block Grant fund, Disaster and Emergency Service Fund, Solid Waste Fund, E-911 Fund, Local Government Economic Development Fund, and Economic Assistance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Breathitt County Kentucky Justice Center Corporation Fund and the General Obligation Refunding Bond Series 2003 Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	25,000	10-75
Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-5
Infrastructure	20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Breathitt County Kentucky Justice Center Corporation Fund and the General Obligation Refunding Bond Series 2003 Fund. The Department for Local Government does not require the fiscal court to report or budget these funds.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

Related Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Breathitt County Fiscal Court: Breathitt County Industrial Foundation.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Venture, and Jointly Governed Organizations (Continued)

Jointly Governed Organizations

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The Jackson/Breathitt County Airport Board meets the criteria noted above and is an organization jointly governed by Breathitt County and the City of Jackson.

Note 2. Deposits

The primary government and component units' maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institutions failure, the County may not recover its deposits. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Receivable

On September 8, 2006, the Breathitt County Fiscal Court executed an agreement with Lafferty Enterprises for the sale of the county's ambulance service's Certificate of Need along with an ambulance and equipment. The selling price was \$225,000. Conditions of the sale included \$125,000 payment toward the purchase price simultaneously with the execution of the agreement. (Payment was received on September 8, 2006. The agreement stipulates a five-year repayment schedule with an annual interest rate of 6%. The schedule calls for quarterly payments beginning on October 1, 2006 and a lump payment of \$67,305 on October 1, 2012. Future amounts due Breathitt County are as follows:

Fiscal Year Ended June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	7,228	4,772
2011	7,671	4,329
2012	<u>67,305</u>	<u>1,010</u>
	<u>\$ 82,204</u>	<u>\$ 10,111</u>

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,727,786	\$	\$	\$ 1,727,786
Total Capital Assets Not Being Depreciated	1,727,786			1,727,786
Capital Assets, Being Depreciated:				
Buildings	14,120,115			14,120,115
Vehicles and Equipment	1,506,166	33,023		1,539,189
Infrastructure	1,247,298			1,247,298
Total Capital Assets Being Depreciated	16,873,579	33,023		16,906,602
Less Accumulated Depreciation For:				
Buildings	(1,271,265)	(166,669)		(1,437,934)
Vehicles and Equipment	(644,348)	(107,268)		(751,616)
Infrastructure	(227,278)	(73,941)		(301,219)
Total Accumulated Depreciation	(2,142,891)	(347,878)		(2,490,769)
Total Capital Assets, Being Depreciated, Net	14,730,688	(314,855)		14,415,833
Governmental Activities Capital Assets, Net	\$ 16,458,474	\$ (314,855)	\$ 0	\$ 16,143,619

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 153,382
Protection to Persons and Property	68,700
General Health and Sanitation	23,850
Roads, Including Depreciation of General Infrastructure Assets	<u>101,946</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 347,878</u>

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt

A. First Mortgage Revenue Bond (Justice Center Project), Series 2003

On April 1, 2003, the Breathitt County Kentucky Justice Center Corporation, a component unit of the Breathitt County Fiscal Court, issued \$8,030,000 in First Mortgage Revenue Bonds for the construction of the Justice Center. Semiannual principal and interest payments are required in April and October of each year beginning October 2003. The bonds will be paid in full October 2023.

The Breathitt County Kentucky Justice Center Corporation is acting as an agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the Breathitt County Justice Center. The Breathitt County Kentucky Justice Center Corporation expects rentals for use of the Breathitt County Justice Center to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Breathitt County Kentucky Justice Center Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds.

The AOC with the execution of the lease expressed its intention to continue to pay the full allowance payment. However, the lease does not obligate the AOC to do so. As of June 30, 2009 the principal balance on these bonds was \$6,500,000. Debt service requirements for the remaining years are:

<u>Governmental Activities</u>			
Fiscal Year Ended			
June 30	Principal	Interest	
2010	\$ 335,000	\$	236,855
2011	345,000		226,224
2012	355,000		214,849
2013	370,000		202,605
2014	380,000		189,480
2015-2019	2,130,000		726,685
2020-2024	2,585,000		267,100
Totals	<u>\$ 6,500,000</u>	<u>\$</u>	<u>2,063,798</u>

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

B. General Obligation Refunding Bonds, Series 2003

On July 1, 2003, the County issued \$865,000 in General Obligation Refunding Bonds, Series 2003. The proceeds from these refunding bonds were used to refinance the Breathitt County Public Properties Corporation Series 1994 Road bonds, the Breathitt County Public Properties Corporation Series 1996 Jail bonds, and a 1998 capital lease for a grader. These bonds are scheduled to mature in February 2016; interest payments are due every six months starting February 2004 and principal payments are due annually beginning in February 2004. At June 30, 2009 the principal balance outstanding on these bonds was \$215,000. Debt service requirements for the fiscal years ending June 30, 2010, and thereafter is as follows:

	<u>Governmental Activities</u>	
<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 30,000	\$ 7,539
2011	30,000	6,579
2012	35,000	5,619
2013	30,000	4,350
2014	35,000	3,263
2015-2016	<u>55,000</u>	<u>2,719</u>
Totals	<u>\$ 215,000</u>	<u>\$ 30,069</u>

C. Grader and Dump Trucks

On December 4, 2003, the County entered into a lease agreement with Kentucky Association of Counties for the purchase of a grader and three dump trucks. The principal amount of this lease was \$225,000. Terms of the lease agreement stipulate an 8-year repayment schedule with monthly interest payments and annual principal payments. As of June 30, 2009 the principal balance outstanding was \$93,783. Debt service requirements for fiscal years ending June 30, 2010, and thereafter are as follows:

	<u>Governmental Activities</u>	
<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 33,255	\$ 2,865
2011	34,498	1,948
2012	<u>26,030</u>	<u>659</u>
Totals	<u>\$ 93,783</u>	<u>\$ 5,472</u>

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

D. Loan Guaranty-Airport

On November 1, 1999, the County and the City of Jackson entered into an unsecured guaranty agreement with First National Bank. The agreement stipulates the County and City of Jackson will guarantee payments on a loan that was entered into by the Jackson/Breathitt Airport Board in the amount of \$156,317. Terms of the agreement stipulate a principal and interest payment of \$1,000 per month of the termination date of November 16, 2019. The County and the City of Jackson currently pay an equal payment of \$500 each directly to the First National Bank. As of June 30, 2009, the County's portion of the principal balance outstanding was \$52,484. Debt service requirements for the County's portion for fiscal years ending June 30, 2010, and thereafter is as follows:

<u>Governmental Activities</u>		
<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 3,452	\$ 2,548
2011	3,628	2,372
2012	3,815	2,185
2013	3,994	2,007
2014	4,215	1,785
2015-2019	24,540	5,460
2020	8,840	138
	<u>\$ 52,484</u>	<u>\$ 16,495</u>

E. Jail-Van

On November 22, 2005, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a van for use by the county. Terms of the lease agreement stipulate a 4-year repayment schedule with annual principal payment and monthly interest payments. Principal payments are to commence on July 20, 2006. As of June 30, 2009, the principal balance outstanding was \$6,015. Debt service requirements for fiscal years ending June 30, 2010, and thereafter is as follows:

<u>Governmental Activities</u>		
<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 6,015	\$
	<u>\$ 6,015</u>	<u>\$ 0</u>

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

F. Redesign of the Breathitt County Detention Center

On January 31, 2005, the County entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the redesign of the Breathitt County Detention Center. The amount of the lease was \$150,000 with repayment commencing on July 20, 2006. The lease was to be repaid over a seven (7) year period with monthly principal and interest payments. As of June 30, 2009 the principal balance outstanding was \$84,267. Debt service requirements for fiscal years ending June 30, 2010, and thereafter is as follows:

<u>Governmental Activities</u>		
<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 20,719	\$ 3,569
2011	23,249	2,700
2012	23,942	1,523
2013	<u>16,357</u>	<u>343</u>
Totals	<u>\$ 84,267</u>	<u>\$ 8,135</u>

G. Jail Suburban

On December 30, 2006, the county entered into a leasing agreement with Citizens Bank and Trust Company of Jackson for the purchase of a Suburban to be used by the Jailer. The lease principal amount was \$41,243 with monthly principal and interest payments for a period of four (4) years at an interest rate of 5.9%. Debt service requirements for fiscal years ending June 30, 2010, and thereafter are as follows:

<u>Governmental Activities</u>		
<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 9,989	\$ 660
2011	<u>6,638</u>	<u>133</u>
Totals	<u>\$ 16,627</u>	<u>\$ 793</u>

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

H. Coroner-Suburban

On December 30, 2006, the county entered into a leasing agreement with Citizens Bank & Trust Company of Jackson for the purchase of a Suburban to be used by the Coroner. The lease principal amount was \$38,798 with monthly principal and interest payments for period of four (4) years at an interest rate of 5.9%. Debt service requirements for fiscal years ending June 30, 2010, and thereafter is as follows:

	<u>Governmental Activities</u>	
Fiscal Year Ended		
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 9,397	\$ 678
2011	<u>7,154</u>	<u>162</u>
Totals	<u>\$ 16,551</u>	<u>\$ 840</u>

I. Mack Trucks

On July 22, 2009, the county entered into a leasing agreement with Kentucky Association of Counties Leasing Trust for the purchase of a three Mack Trucks in the amount was \$315,000. The county has purchased these trucks with the intent to hold them over a year and sell the trucks at an auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires monthly interest payments and on principal payment due June 20, 2010. Debt service requirements for fiscal year ending June 30, 2010 are as follows:

	<u>Governmental Activities</u>	
Fiscal Year Ended		
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 315,000	\$ 12,440
Totals	<u>\$ 315,000</u>	<u>\$ 12,440</u>

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

<u>Government Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds	6,825,000		325,000	6,500,000	335,000
General Obligation Refunding Bonds	240,000		25,000	215,000	30,000
Financing Obligations	<u>347,016</u>	<u>315,000</u>	<u>77,289</u>	<u>584,727</u>	<u>397,827</u>
Governmental Activities Long-term Liabilities	<u>\$ 7,412,016</u>	<u>\$ 315,000</u>	<u>\$ 427,289</u>	<u>\$ 7,299,727</u>	<u>\$ 762,827</u>

Note 6. Related Party Transactions

During the fiscal year, the County expended \$502 to Combs Custom Manufacturing, \$9,656 to Breathitt Auto Parts, and \$16,885 to Breathitt County Tire. The County Attorney's parents own those businesses.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

The county's contribution for FY 2007 was \$192,596, FY 2008 was \$213,614, and FY 2009 was \$186,519.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 8. Deferred Compensation

On February 24, 2000, the Breathitt County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2009, Breathitt County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Prior Period Adjustments

The beginning net asset balance for governmental activities of Breathitt County Fiscal Court have been restated. We have increased Governmental Activities, and the General Fund due to prior year voided checks. We have also adjusted Governmental Activities to correct prior year financing obligation balances for the airport, the Jail Suburban, and the Coroner's Suburban. The following is a reconciliation of net assets as previously reported to the restated net assets balance.

	Governmental Activities
Beginning Net Assets	\$ 10,562,632
Adjustments:	
Prior year voided checks - General	274
Financing Obligation Balance - Airport	211
Financing Obligation Balance - Jail Suburban	(832)
Financing Obligation Balance - Coroner Suburban	(783)
Immaterial Audit Adjustment	(4,004)
Restated beginning balance	<u><u>\$10,557,498</u></u>

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BREATHITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

BREATHITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,482,000	\$ 1,655,804	\$ 1,594,355	\$ (61,449)
Excess Fees		185,890	185,890	
Licenses and Permits	15,000	16,006	17,461	1,455
Intergovernmental Revenue	305,400	394,347	290,808	(103,539)
Miscellaneous	170,000	256,796	236,900	(19,896)
Interest	3,000	3,000	1,354	(1,646)
Total Revenues	<u>1,975,400</u>	<u>2,511,843</u>	<u>2,326,768</u>	<u>(185,075)</u>
EXPENDITURES				
General Government	1,324,175	1,521,616	1,325,665	195,951
Protection to Persons and Property	76,120	84,328	75,126	9,202
Social Services	61,750	81,530	66,114	15,416
Recreation and Culture		672	672	
Debt Service	26,882	26,935	25,638	1,297
Administration	441,473	975,785	412,415	563,370
Total Expenditures	<u>1,930,400</u>	<u>2,690,866</u>	<u>1,905,630</u>	<u>785,236</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>45,000</u>	<u>(179,023)</u>	<u>421,138</u>	<u>600,161</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	(400,000)	(402,500)	(317,500)	85,000
Transfers In	<u>100,000</u>	<u>175,000</u>	<u>75,000</u>	<u>(100,000)</u>
	<u>(300,000)</u>	<u>(227,500)</u>	<u>(242,500)</u>	<u>(15,000)</u>
Net Changes in Fund Balance	(255,000)	(406,523)	178,638	585,161
Fund Balance - Beginning	<u>255,000</u>	<u>404,023</u>	<u>436,554</u>	<u>32,531</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (2,500)</u>	<u>\$ 615,192</u>	<u>\$ 617,692</u>

BREATHITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,366,047	\$ 1,563,625	\$ 1,454,380	\$ (109,245)
Miscellaneous	291,000	304,604	14,604	(290,000)
Interest	3,500	3,500	1,487	(2,013)
Total Revenues	<u>1,660,547</u>	<u>1,871,729</u>	<u>1,470,471</u>	<u>(401,258)</u>
EXPENDITURES				
Transportation Facilities and Services	7,500	7,500	1,598	5,902
Roads	1,001,210	1,172,233	1,017,930	154,303
Debt Service	378,670	378,670	48,303	330,367
Capital Projects		7,102	7,102	
Administration	348,167	451,685	224,242	227,443
Total Expenditures	<u>1,735,547</u>	<u>2,017,190</u>	<u>1,299,175</u>	<u>718,015</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(75,000)</u>	<u>(145,461)</u>	<u>171,296</u>	<u>(316,757)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	100,000	100,000		(100,000)
Transfers Out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(10,169)</u>	<u>89,831</u>
			<u>(10,169)</u>	<u>(10,169)</u>
Net Changes in Fund Balance	(75,000)	(145,461)	161,127	306,588
Fund Balance - Beginning	<u>75,000</u>	<u>145,461</u>	<u>145,461</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 306,588</u>	<u>\$ 306,588</u>

**Reconciliation of Required Supplementary Information to Statement Of Revenues,
Expenditures, and Changes in Fund Balances**

Total Expenditures - Budgetary Basis	\$ 1,299,175
Add: Financing Obligation Purchases	<u>315,000</u>
Total Revenue - Modified Cash Basis	<u>\$ 1,614,175</u>
 Total Other Financing Sources (Uses) - Budgetary Basis	 \$ (10,169)
Financing Obligation Proceeds	<u>315,000</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 304,831</u>

BREATHITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 110,500	\$ 116,684	\$ 113,614	\$ (3,070)
Charges For Services	500	3,455	3,455	
Miscellaneous	10,000	13,000	4,591	(8,409)
Interest	100	121	139	18
Total Revenues	121,100	133,260	121,799	(11,461)
EXPENDITURES				
Protection to Persons and Property	738,657	789,424	734,575	54,849
Debt Service	36,812	36,862	12,111	24,751
Administration	85,631	109,753	46,924	62,829
Total Expenditures	861,100	936,039	793,610	142,429
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(740,000)	(802,779)	(671,811)	(130,968)
OTHER FINANCING SOURCES (USES)				
Transfers In			645,000	645,000
Transfers Out	730,000	730,000	(24,170)	(754,170)
	730,000	730,000	620,830	(109,170)
Net Changes in Fund Balance	(10,000)	(72,779)	(50,981)	21,798
Fund Balance - Beginning	10,000	64,779	64,779	
Fund Balance - Ending	\$ 0	\$ (8,000)	\$ 13,798	\$ 21,798

BREATHITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenue	\$ 630,000	\$ 969,211	\$ 969,211	\$
Miscellaneous	500	12,011	12,011	
Interest	1,500	1,500	1,333	(167)
Total Revenues	632,000	982,722	982,555	(167)
EXPENDITURES				
General Government	59,450	171,167	167,184	3,983
Protection to Persons and Property		29,858	29,859	(1)
General Health and Sanitation	110,324	178,497	160,950	17,547
Social Services	10,414	10,414	668	9,746
Recreation and Culture	21,000	21,000	13,382	7,618
Roads	90,000	90,000	7,905	82,095
Airports	11,000	15,347	13,615	1,732
Debt Service	16,991	17,039	16,991	48
Administration	57,821	413,655	39,276	374,379
Total Expenditures	377,000	946,977	449,830	497,147
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	255,000	35,745	532,725	496,980
OTHER FINANCING SOURCES (USES)				
Transfers Out	(430,000)	(430,000)	(330,000)	100,000
	(430,000)	(430,000)	(330,000)	100,000
Net Changes in Fund Balance	(175,000)	(394,255)	202,725	596,980
Fund Balance - Beginning	175,000	402,255	402,255	
Fund Balance - Ending	\$ 0	\$ 8,000	\$ 604,980	\$ 596,980

BREATHITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

SOLID WASTE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$	\$ 185,568	\$ 95,984	(89,584)
Charges for Services	75,000	82,744	104,950	22,206
Miscellaneous	2,500	3,032		(3,032)
Interest	100	415	521	106
Total Revenues	77,600	271,759	201,455	(70,304)
EXPENDITURES				
General Health and Sanitation	78,619	273,510	167,178	106,332
Administration	73,981	166,317	21,810	144,507
Total Expenditures	152,600	439,827	188,988	250,839
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(75,000)	(168,068)	12,467	180,535
Net Changes in Fund Balance	(75,000)	(168,068)	12,467	180,535
Fund Balance - Beginning	75,000	168,068	168,068	
Fund Balance - Ending	\$ 0	\$ 0	\$ 180,535	\$ 180,535

BREATHITT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

E-911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 95,000	\$ 95,236	\$ 104,541	\$ 9,305
Interest	500	500	406	(94)
Total Revenues	95,500	95,736	104,947	9,211
EXPENDITURES				
Protection to Persons and Property	91,394	94,295	80,866	13,429
Administration	54,106	162,848	11,021	151,827
Total Expenditures	145,500	257,143	91,887	165,256
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(50,000)	(161,407)	13,060	174,467
Net Changes in Fund Balance	(50,000)	(161,407)	13,060	174,467
Fund Balance - Beginning	50,000	161,407	161,407	
Fund Balance - Ending	\$ 0	\$ 0	\$ 174,467	\$ 174,467

**BREATHITT COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2009

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**BREATHITT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2009

BREATHITT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	Community Development Block Grant Fund	Disaster and Emergency Service Fund	Local Government Economic Assistance Development Fund	Economic Assistance Fund	General Obligation Refunding Bond Series 2003 Fund	Total Non-Major Governmental Funds
ASSETS						
Cash	\$	\$ 9,236	\$ 2,143	\$ 29,153	\$ 1,385	\$ 41,917
Total Assets	0	9,236	2,143	29,153	1,385	41,917
FUND BALANCES						
Fund Balances:						
Debt Service					1,385	1,385
Unreserved:						
Special Revenue Funds		9,236	2,143	29,153		40,532
Total Fund Balance	\$ 0	\$ 9,236	\$ 2,143	\$ 29,153	\$ 1,385	\$ 41,917

The accompanying notes are an integral part of the financial statements

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BREATHITT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

BREATHITT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	Community Development Block Grant Fund	Disaster and Emergency Service Fund	Local Government Economic Assistance Development Fund	Economic Assistance Fund
REVENUES				
Intergovernmental	\$ 277,405	\$ 10,000	\$	\$
Charges For Services			300,486	
Miscellaneous				
Interest				
Total Revenue	<u>277,405</u>	<u>10,000</u>	<u>300,486</u>	<u></u>
EXPENDITURES				
Protection to Persons and Property			164,661	
General Health and Sanitation	277,405		63,196	
Debt Service				
Administration		12,750		5,760
Total Expenditures	<u>277,405</u>	<u>12,750</u>	<u>227,857</u>	<u>5,760</u>
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	<u></u>	<u>(2,750)</u>	<u>72,629</u>	<u>(5,760)</u>
OTHER FINANCING SOURCES (USES)				
Transfer From Other Funds			2,500	
Transfer To Other Funds			(75,000)	
Total Other Financing Sources (Uses)	<u></u>	<u></u>	<u>(72,500)</u>	<u></u>
Net Change in Fund Balances		(2,750)	129	(5,760)
Fund Balances-Beginning		11,986	2,014	34,913
Fund Balances-Ending	<u>\$ 0</u>	<u>\$ 9,236</u>	<u>\$ 2,143</u>	<u>\$ 29,153</u>

The accompanying notes are an integral part of the financial statements

BREATHITT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009
(Continued)

General Obligation Refunding Bond Series 2003 Fund	Total Non-Major Governmental Funds
\$	\$ 287,405
	300,486
9	9
9	587,900
	164,661
	340,601
33,339	33,339
1,000	19,510
34,339	558,111
(34,330)	29,789
34,339	36,839
	(75,000)
34,339	(38,161)
9	(8,372)
1,376	50,289
\$ 1,385	\$ 41,917

The accompanying notes are an integral part of the financial statements

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harvey Jason Richardson, Breathitt County Judge/Executive
Members of the Breathitt County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breathitt County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 22, 2010. Breathitt County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Breathitt County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Breathitt County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Breathitt County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Breathitt County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 22, 2010

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPEMNT PROGRAMS**

BREATHITT COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2009**


CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

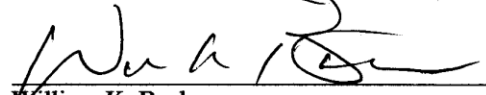
BREATHITT COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2009

The Breathitt County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Harvey Jason Richardson
County Judge/Executive



William K. Back
County Treasurer

